



## Investment Philosophy and Process

### Invesco U.S. Real Estate Securities Portfolio

#### Investment philosophy

We believe the relative success of a real estate investment trust (REIT) is dependent on management ability, asset quality and the underlying strength of its operating markets. By identifying REITs with favorable characteristics in these areas and buying them at attractive prices, we seek to create a portfolio that will perform at or above REIT index levels with a comparable level of risk.

#### Universe definition

We begin with the investable universe of approximately 200 real estate equities. We filter for the companies that meet our target liquidity, risk and diversification profiles (at least \$100 million in market capitalization and sufficient daily trading volume to provide liquidity).

#### Security selection

We narrow the field by identifying property types we believe will benefit from long-term sector trends. We rely heavily on fundamental research when evaluating potential portfolio holdings, including property market cycle analysis, property evaluation, and management and structure review.

Our research includes a variety of hands-on methods, including interviews with property management teams, visits to property locations and market intelligence data from our field offices involved with direct purchase of properties for institutions. This research helps us identify REITs operating in the most attractive markets that we believe represent quality underlying properties, strong management teams with the ability to effectively manage capital structure decisions, and attractive valuations relative to peer investment alternatives. This also helps us avoid weaker or higher risk companies.

We use proprietary quantitative models when evaluating stocks, which allow us to assess valuations relative to one another and relative to our assessment of their underlying asset value.

The main objectives of our securities analysis are to:

- Systematically evaluate and rank stocks according to relative value.
- Efficiently survey the entire investment universe and identify occasions when investors may be overreacting to short-term market or industry events.
- Thoroughly analyze return potential by testing and using multiple valuation criteria.

#### Investment Process

##### Universe Definition (200 stocks)

Real estate securities

##### Qualified Universe (110 stocks)

- At least \$100 million in market capitalization
- Equity REIT focus
- Sufficient trading volume to provide necessary liquidity

##### Real Estate Analysis (75 stocks)

- Sound balance sheet and dividend coverage
- Companies with assets in stronger markets
- Lower risk profile relative to similar property types

##### Securities Analysis (55 stocks)

Rank stocks according to best value

##### Portfolio Construction

- Attractive valuation
- Diversification by region and property type
- Higher/more consistent earnings growth potential

##### Portfolio Target (approximately 35 stocks)

Create optimal risk-return relationship

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## Portfolio construction

When constructing the portfolio, we consider each security's relative value and its contribution to the portfolio's overall risk profile.

We seek to continuously manage risk within the portfolio by:

- Performing fundamental research to mitigate firm-specific and metropolitan market-level risk, and using earnings models to identify possible downward earnings revisions.
- Employing a comprehensive model to assess relative stock values, using multiple valuation metrics.
- Using an optimizer to help assess risk characteristics. We target market risk consistent with the portfolio's index and maintain property type and geographic diversification.
- Limiting exposure to individual companies.

The resulting portfolio typically holds approximately 35 names, although we may occasionally increase the number of holdings to maintain our desired risk profile.

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## Sell discipline

We will consider selling a holding when:

- Relative valuation falls below the desired portfolio level.
- The risk-return relationship changes significantly.
- REIT fundamentals change (e.g., property type, geography or management changes).
- A more attractive investment opportunity is identified.

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Investing in a single-sector portfolio involves greater risk and potential reward than investing in a more diversified portfolio.

The FTSE NAREIT Equity REITs Index is an unmanaged index considered representative of U.S. REITs. An investment cannot be made directly in an index. Diversification does not guarantee a profit or eliminate the risk of loss.